

## US HRM and the EU Social Policy: A Case Study of the Works Council Directive

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The following paper is a work in progress. The portion presented is based on participation in meetings of human resource managers, readings in human resource literature and research at the Commission. It also includes preliminary findings from a questionnaire sent to forty human resource managers. Future research plans include personal interviews with American human resource managers in corporations which will be required to implement the Works Council Directive.

The subject of this paper is the impact of European Union (EU) social policy on the human resource practices of European subsidiaries of American multinational corporations (MNCs). The human resource policies of an enterprise are affected by the environment in which it operates. Laws, culture, economic and social conditions all have an impact. In the case of a MNC, human resource management is complicated by the necessity to operate in two or more environments in which contradictory or incompatible conditions may exist. The issue that is of concern in this paper is the congruity or incongruity of American human resource practices with EU social policy in general and with the European works council directive in particular.

The European subsidiaries of American multinational corporations (MNCs) are subject to the restraints and the benefits of European Union policies. In general, American corporations support the creation of the single market. Most observers believe that American corporations, experienced in a large domestic market, are well placed to benefit from the single market. American corporations, however, have opposed the addition of a social dimension to the single market. Their executives have argued that the social policies of the EU obstruct the normal operation of human resource management and result in the loss of flexibility and in an increase in the cost of operation.

The objective of this paper is to examine the challenge which one of the most important social policies of the EU poses for American MNCs. The European works council directive is the first directive to be adopted under the Social Protocol of the Treaty on European Union (Maastricht Treaty). The approach involves both a consideration of the American field of human resource management (HRM) and a consideration of the works council directive in order to ascertain the difficulties in reconciling the two. The paper is divided into three parts and a conclusion. Part one deals with trends in American HRM and explains some similarities and differences with European developments. Part two examines the European works council directive. Part three presents the findings of a questionnaire given to human resource managers in American MNC's with operations in the EU. The conclusion, which are preliminary pending personal interviews with HR managers, draws together the implications of the findings in the three parts.

### I. HRM IN THE UNITED STATES

HRM is a category of management which is distinctively American both in its genesis and its present practice. It was influenced by American behavioral psychology and by the labor market in the United States earlier in this century. (Springer and Springer, 1990) It developed in a legal environment supportive of the American values of individualism, free enterprise and property rights. These early influences continue to shape the field today. HRM specialists engage in the following tasks: hiring personnel, job classification, management development and designing compensation and fringe benefit packages. Each of these tasks is shaped by the requirement that personnel practices be objective and without discrimination in regard to sex or race. Standardization, validation, scientific are attributes which practitioners seek in their work.

Many specialists in Europe regard HRM with suspicion and as a distinctly American import. (See for example, Vickerstaff, 1992, p. 1) They prefer the concepts personnel management and/or industrial relations. (HRM is growing in popularity, however.) Disputes among advocates of the different concepts fill the pages of relevant European journals and supply panel topics at conferences. (See for example Thurley, 1989 or Adams, 1995) According to Richard Hyman, the dynamic for HRM in the United States has been anti-unionism. For this reason, HRM has had little appeal in northern Europe, in particular, where collective bargaining is highly developed and labor/management relations is institutionalized. (Hyman, 1995 pp. 35-38) European specialists argue that American HRM is too mechanistic making a science of a field that should be treated as an art. They assert that HRM is based on assumptions drawn from American culture that do not necessarily apply in Europe. Others criticize American HRM as still influenced by Taylorist approaches and lacking humanity. Europeans discuss concepts such as Taylorism, Fordism, or lean production much more commonly in their scholarly writings than do their American counterparts. The differences are a reflection of the tendency in the United States to regard the employee as an individual with an economic relationship with the firm. Pay and promotion are key concerns. In Europe, the tendency is to regard employees as a class or group with general interests.

Three topics are popular in HRM literature in the United States today. They are employee involvement programs, the status of HRM and globalization. The interest in employee involvement programs stems from serious worries about productivity. Such programs as total quality management and team building are management initiatives to involve employees in discussions regarding improvements in the workplace. They do not involve the transfer of authority or are they mandated by law. They are sometimes advocated by consultants as part of an anti-union strategy. In regard to the status of HRM, practitioners believe that their work is not a highly valued field of management. Ambitious, young managers are advised to avoid HRM as a stepping stone to higher management. Many authorities, as well as corporate executives, argue that the status of HRM should be raised in order to make American firms more competitive in the global economy. The reality remains, however, that human resource managers have little status in the corporate hierarchy.

Globalization is a popular word in business literature. When used in reference to HRM, it refers to the establishment of uniform HRM practices for an entire MNC in order to facilitate the effective utilization of personnel. Positions are to be filled by the best qualified individual without regard to nationality. In the jargon of the field, personnel practices are to change from ethnocentric or polycentric to geocentric. Ethnocentric practices are those in which the norms of the United States dominate and high level positions are reserved to American nationals. Expatriates staff the higher positions in subsidiaries of a MNC and policies are made in the home country headquarters. Polycentric MNCs are highly decentralized. HRM policies are determined nationally with little oversight from headquarters. Expatriates are replaced by local managers.

Geocentric HRM is characterized by universal standards, the movement of the "best" people to positions without regard to nationality, the establishment of world-wide objectives and close collaboration between headquarters and subsidiaries. (Deresky, 1994, pp.252-261) Geocentricism currently is regarded as the best form of HRM for international corporations. (Kobrin, 1994)

As MNCs globalize and adopt geocentric objectives for HRM, the possibility increases that practitioners will give less regard to local laws and customs. American managers, in general, have a lower level of knowledge about the countries to which they are sent as well as a higher failure and return rate than managers from other MNCs. About one-third of them receive some cross cultural training before leaving the US, but the training generally does not include information on the government and laws of the host country. (Deresky, p. 262) American managers, therefore, tend to arrive in host countries with little knowledge of national laws and little incentive to implement local HRM practices. Many assume that American HRM is the most advanced in the world. When they also believe in the principles of globalization, they may have little incentive to learn about the local laws and practices. The situation raises warning signs for easy harmony between American operations in the EU and the spirit of EU employment policies.

## II. THE EUROPEAN WORKS COUNCIL DIRECTIVE

Employment policies (or social policies as they are more commonly called) in the EU are regarded in the Commission as a necessary flanking measure to the creation of the internal market. They are designed to protect employees from negative consequences, such as social dumping, that result from the internal market. The policies derive from European values and European practices. They have many similarities with policies in the United States such as laws against sex discrimination, but they also have differences -- most particularly in regard to statutory requirements for worker participation.

The European Works Council Directive, the first employment directive to be adopted under the Social Protocol, requires MNCs operating in two or more member states and having a minimum number of employees to establish a procedure for informing and consulting employees on matters, such as investment plans, closures or management restructuring, which affect at least two members of the group. The MNC and its employees may negotiate a voluntary agreement regarding the procedure for consultation. If they fail to reach a voluntary agreement within three years, a European works council will be imposed by law. The council will be composed of representatives from the European subsidiaries. The council will have the right to regular information and to meet with upper management at least once a year. Given the options, MNCs are probably wise to act now while they have flexibility in designing the structure for consultation rather waiting and being required to establish a structure mandated by law.

The reach of the directive is impressive. It includes operations in countries of the European Economic Area as well as the member states of the EU except the United Kingdom (U.K.) It will affect approximately 1,500 corporate groups including possibly 200 groups with headquarters in the United States and 50 with headquarters in Japan. It also includes the continental operations of British groups. (FINANCIAL TIMES, April 10, 1995 and CREW, 1994, p. 5) Member states have agreed to transpose the directive into national law simultaneously on September 22, 1996 which gives corporations until 1999 to implement the legislation. Some 50 groups have already established European works councils and some, such as Electrolux, are using their proactive policy as part of a public relations effort to demonstrate that the MNC is a good European.

The EU has struggled since the 1970s in order to devise an acceptable directive on workers' participation. Opposition came from the British government and from business groups. The British denied the legitimacy of the principle of participation. European business groups opposed legal requirements for participation but they accepted the principle of participation. (Almost all European firms have experience with national laws on works councils and worker information rights.) The Commission of the EU drafted and redrafted proposals for the directive in order to overcome the opposition of business groups. The draft that was finally accepted in 1994 is much more moderate than were proposals in the 1970s. No revision, however, was acceptable to the British since they opposed the fundamental principle. The "opt out" provision of the Maastricht treaty had to be invoked in order for the directive to be adopted.

Labor unions claim the Works Council Directive as an important victory. They are calling on companies to enter negotiations for voluntary agreements and not to wait until the law forces action. (ETUI, 1995, pp. 133-135) The subject will, no doubt, be on the agenda for negotiations throughout the member states (including the U.K. where labor unions are arguing for voluntary compliance.) Corporations that want to maintain harmonious relations with their labor unions will need to have a strategy for cooperation.

### III. THE AMERICAN RESPONSE

American businesses opposed adoption of a policy on worker participation in the EU. A number of MNCs, under the leadership of Ford, formed a group in the early 1980s to oppose the famous Vredeling proposal for information and consultation of employees in MNCs. Some American consultants conducted scare campaigns against proposals in the European Community on employee rights. The hostility against EU social proposals became almost palpable in meetings of HRM managers. The proposals were considered to be a threat to traditional managerial prerogatives. Managers also argued that the proposal would increase both the cost and the complexity of doing business in Europe. Some leaders warned that American firms would disinvest in Europe if new social

proposals were adopted. The strident tone created a backlash against American tactics among some Europeans in Brussels.

The response among US managers arose from philosophical as well as strategic difference between the business environment in the US and Europe. These differences are deeply ingrained and they will make it difficult for American MNCs to adopt the new Works Council Directive. The differences start with the fundamental differences between American and European capitalism which many scholars have noted and they lead to different approaches in HRM. (See for example Hodges and Woolcock, 1993, pp. 329-344) Works council are a 'natural' extension of continental labor practices, but appear to be an infringement on the 'natural' operation of the market to many American managers. American managers have few restraints on their authority to determine pay levels, lay-offs, plant relocations or 'down-sizing'. Neither labor unions nor legislation seriously inhibit their right to manage. In contrast, the majority of European employees have their pay determined by collective bargaining compared to about twenty percent in the United States. (Adams, 1995, p. 55) Many European employees must also be informed and consulted regarding plans to lay-off, relocate or 'down-size' an operation. The employee participation programs, which are popular in the United States, are not equivalent because they are a management prerogative and not a legal requirement as they are in Europe.

The ratification of the Maastricht Treaty, with its opt out provision on social policy, made the adoption of the Works Council Directive a certainty. In that new era, American managers in the EU apparently changed their strategy. They did not openly oppose the proposal but rather left the initiative to UNICE, the European employers association. They rightly determined that UNICE would be able to gain concessions in the final version of the directive even if they could not block it.

Since the adoption of the directive, the American managers have been quiet. More importantly they appear to be doing little to take advantage of the three year period in which they may negotiate voluntary agreements. Officials from both the Commission and the American Chamber of Commerce in Brussels agree on this point. Consequently American firms will have to institute works councils as directed by law in 1999.

The final section of this paper cannot be completed at this time due to the disappointing number of responses to a questionnaire which was mailed to forty HRM directors. The purpose of the questionnaire was to ascertain whether the managers followed relevant developments in the EU and whether they had plans to implement the Works Council Directive. They were also asked whether the HRM policy of their MNC was global or decentralized. The responses which were received showed no discernible pattern except all indicated that EU policies were of moderate relevance to them. Half had plans to implement the Directive and half did not. All indicated that various EU policies such as health and safety affected their operation, each indicated a different set of policies. No pattern appeared in regard to the questions concerning globalization either. The main conclusion which I reached regarding the experience is that the information regarding the consequences of EU policies will be very difficult to obtain and will require personal interviews and probably repeated interviews. Since HR managers are affected by national laws, they are not always aware that the national laws derive from an EU directives. In addition, HR managers may not know about pending policies that are under discussion elsewhere in the corporate hierarchy. The findings of a field research effort would be fascinating to have. We know little about the impact of EU policies on the operations of American MNCs. The objective, however, will have to await a more ambitious program than is possible at this time.

## CONCLUSION

The objective of this paper was to study the interaction between an important new EU social policy and American HRM as practiced in operations in the EU. The objective of the paper could not be achieved due to minimal response to the questionnaire. The evidence gathered does indicate, however, that the globalization popular in American HRM is not compatible with the development of a EU social policy which is contrary to American norms. The European Works Council Directive, in particular, poses a significant challenge to American HRM. Realistically, however, American managers have not opposed it as they did earlier versions of the Directive. Neither are they in the vanguard of managers taking a proactive strategy regarding voluntary implementation. No American

firm has followed the Electrolux model to gain a public relations coup by early and enthusiastic compliance.

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